How to Use the Low-Interest Environment to Drive Life Sales

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In my MDRT Main Platform presentation titled "Paychecks and Playchecks," I shared the math and science of how to retire the right way. I talked about the importance of covering basic expenses in retirement with guaranteed lifetime income. I also discussed the importance of mortality credits and how only a life insurance company can manufacture mortality credits. I am going to show you today how these same mortality credits can protect a family or an inheritance with life insurance.

There are a lot of risks in retirement. There is market risk, withdrawal rate risk, order of return risk, inflation, deflation, you might need long-term care, you might die. There are a lot of risks in retirement. But there is only one number one risk. The number one risk in retirement is longevity risk. Why? Because longevity is not just a risk, it is a risk multiplier of all the other risks. What am I talking about? Let's say you retire at age 65 and three years later, at age 68, you die of a heart attack. Does it matter if the stock market went down 3,000 points? No. Does it matter if you were withdrawing 10 percent a year from your portfolio? No. Does it matter if you forgot to buy a long-term care policy? No. It doesn't matter. You didn't live long enough. But if you live to be 85, 90, or 95, it is all of those other risks that can wipe you out. So what math and science says is that you have to take longevity risk off the table. Stocks can't do that. Bonds can't do that. CDs can't do that. Only some form of an annuity can do it. A lifetime income annuity can do it, or a deferred lifetime income annuity, which you might call longevity insurance, or an income benefit rider on a fixed or variable annuity. But that is it. Only some form of an annuity can take longevity risk off the table.

Why is that? It is because only a life insurance company can guarantee that you will never run out of money. Why is that? Because only a life insurance company is on both sides of the mortality risk. The risk to an insurance company when you sell a life insurance policy is that somebody dies too soon. The risk when you sell a lifetime income annuity is that somebody lives too long. Because the insurance company is on both sides of the mortality risk, they can neutralize longevity risk to themselves and to the client. This has everything to do with mortality

credits. All of you already own mortality credits, you just don't know it. You call it life insurance. You experience mortality credits with life insurance through low premiums when you're young. For example, a 20-year-old could write a check for $25 to an insurance company, later that afternoon accidentally step in front of a bus, and the insurance company would pay a $1 million death claim. How can they afford to pay $1 million if they only got one check for $25? It's because they know not a lot of 20-year-olds are going to accidentally step in front of a bus. It is those same mortality credits that can guarantee a 90-year-old man nearly 20 percent per year for the rest of his life with a lifetime income annuity.

In 2011 I spoke in Singapore for the Million Dollar Round Table at the MDRT Experience Meeting. The day before I spoke, I got interviewed by *Asia Insurance Review*. They said, "Tom, we've reviewed your material and we're very concerned about US life insurance companies that sell guaranteed lifetime income." I said, "Really, why is that?" They said, "Because we believe medical technology is developing so rapidly that people may soon live to be 100, 120, even 150 years of age. The insurance companies that sell guaranteed lifetime income will go broke." I smiled and said, "Well, you've got it half right. They will be paying a lot of guaranteed lifetime income, but they won't be paying death claims because insurance companies are on both sides of the longevity risk. They are the only industry that can neutralize longevity risk to themselves and the clients. Similarly, if an epidemic wiped out a portion of the population, they would be paying death claims, but they wouldn't be paying as much lifetime income. Life insurance and guaranteed lifetime income are tied together. They use the same mortality credits. They do things that no other products can do."

So for this workshop we are going to focus on life insurance. Why it is so important in this economy to talk about it with your clients and prospects? I will share again some "magic words" and show you how simple it is to sell more life insurance in a low interest rate world. So many people don't understand how this low interest rate environment has really changed everything surrounding retirement income, saving for retirement, and protecting your family. Let me give you a few simple examples.

In a 1 percent interest rate environment, how much money would it take to provide you with an income in retirement of $50,000? The answer: $5 million. Think about that. How many of your clients have saved $5 million? And how many of those believe it will only provide $50,000 per year? Now let me turn it around. How much life insurance do you need in a 1 percent interest environment to provide your family with $50,000 of income? The same answer: $5 million. Again, how many of your clients who are earning $50,000 have $5 million of life insurance? Do you see how underinsured people are in this low-interest environment? Your clients who make $300,000 per year need $30 million of life insurance to protect that income. Now, some of you are thinking, Tom, that is crazy. Nobody buys that much life insurance. Okay, let's try this. How much life insurance do you need in a 5 percent interest environment to protect $50,000 of income? The answer: $1 million. I say let's start there. Let's make sure each client in our book of business has at least $1 million for every $50,000 of income. See, that is *not* crazy.

Think about how many times you have been on an appointment. You are at the table with the husband and the wife. The kids are playing in the other room. I'll bet some of you even have coloring books and crayons in your office so the kids can play while you are talking to mommy and daddy. During the interview, the wife says that he has $200,000 of life insurance through his employer and that they are fine. I want to say as strongly as I can, They are not fine! Sometimes in appointments you have to show the clients that they are clearly not fine. Here is a technique I have used with great success. I would look at the husband, point at him, then slam my fist into my palm and say, "BANG! You were just killed by a drunk driver. You are going to be dead for the next few minutes. Then I turn to the wife and say, "Okay, here is what is going to happen. You are going to the $200,000. You are going to call me and ask, "Now what?" I am going to tell you that in a 1 percent interest rate environment, you will get about $180 a month. Now, what I would like you to do is to tell your children over there that everything is fine, that mommy is fine and the family will be fine on $180 a month. See, I couldn't say that to them. Even if I could get 5 percent (which is very difficult in today's market), it would give you about $900 per month. Can you tell them you are all going to be fine on $900 per month? People just don't realize how this low interest rate environment has caused them to be underinsured. People also think they are never going to die. That is why I had to "take him out" during the appointment.

And for those who think that is cruel, how much crueler would it have been for me to say, "Okay, I guess you're right, you are fine"?

I have paid death claims on policies I wrote. I understand the seriousness of what we do. I just want to make sure the client understands it as well. So the next time you are on the appointment with the husband and wife and the kids are playing, remember, your number one job on that appointment is to stick up for the kids.

Many of you know my good friend Joe Jordan. Joe is also a Main Platform MDRT speaker. Joe also wrote a book. The name of Joe's book is *Living a Life of Significance*. For those of you who haven't read it, here are the Cliffs Notes: Joe's father was a very powerful man. He was an advisor to President Harry Truman. But a few days before his dad died, he cashed out all of his life insurance policies. Joe's book starts there. His mom had four young children. She had to sell everything. She had to take two jobs just to put food on the table. When it came time for college, she could just put the boys through college, not the girls. Joe's book talks about brother/sister relationships that have continued to this day. Then, when his mother got to retirement, she didn't have any money and felt like a burden on the children, so she just decided to die. Joe's book is really a cry out to his dad's financial advisor: "How could you let this happen to us? Where were you?" This is a very serious business that we need to take very seriously.

So let's take a practical look at life insurance for a few minutes. Think about your key ring. What is on your key ring? Well, there are your car keys—I'll bet you have automobile insurance. There is your house key—I'll bet you have homeowners insurance. But what about you? What are you worth? The chapter in my book on life insurance is called the "Miracle Money Machine." You are that miracle money machine.

Let's say for a minute you had a machine in your garage that kicked out $10,000 a month for 40 years. What would that machine be worth? Would you secure that machine? If you could buy insurance for it, would you? How much? You are going to earn a fortune. The present value of all of your future earnings is called your human capital. Many times advisors only want to talk to people about their financial capital. However, their human capital can be even more valuable. It

is also why you should continue to talk to young people. Many advisors ignore young people because "they don't have any money." Okay, but they may be multimillionaires in human capital.

Your total economic wealth is made up of two parts—human capital and financial capital. If all you focus on is financial capital, when someone dies, there will be a huge loss of future earnings. When you are sitting down with clients and prospects, make sure to talk to them about both human and financial capital.

Now let's look at some uses for life insurance in retirement. If you have used my ideas around guaranteed lifetime income, you are probably working with many senior citizens. Many advisors think that seniors no longer have a need for life insurance. I can tell you that nothing could be further from the truth. Let's take a quick look at a number of reasons why seniors continue to purchase life insurance.

First, how about legacy to children and grandchildren? Remember when I talked about mortality credits being a form of Retirement Alpha? Well, this Retirement Alpha can be used in the legacy stage as well. When you ask most people how much money they want to leave their children or grandchildren, many of them say, "Well, I guess whatever is left over." Okay, but is this the most efficient way to transfer assets? I don't think so. Additionally, many seniors live a diminished retirement because in the back of their minds they want to leave something for the kids. In my book I discuss this. I ask people if they have done all the things they said they were going to do in retirement. They said they were going to buy a boat, join the country club, and take a cruise around the world. I ask them, "Have you done that yet?" The answer: "No, we need to keep this money just in case." Just in case. Just in case. See, these people are living what I call a "just-in-case retirement." So they don't spend their money, they don't spend their money, they don't spend their money. Then what happens? They die. What happens to the money? It goes to their kids. What do they do with it? *They* buy the new boat. *They* join the country club. *They* take a cruise around the world!

Why not decide upfront how much to leave the kids? Then, for pennies on the dollar, use life insurance to go to the kids' income and estate tax free. You get the leverage of mortality credits offered by the life insurance policy. Then you can buy guaranteed lifetime income, receiving dollars for pennies from the leverage of mortality credits offered by the annuity. Do you see how life insurance and guaranteed lifetime income are tied together? This is the new Retirement Alpha that is the key to success for your clients. The Financial Research Corporation of Boston was the first place that I read about this Retirement Alpha. The concept really rocked my world. Clients are not getting much of any interest on their CDs or bonds. Their stock portfolios are too volatile, and the sequence of returns will wipe them out if they withdraw money during a down market. We have to show how this new Retirement Alpha is the way to go.

I often speak about RMD maximization. I usually discuss this around the idea of optimizing the required minimum distributions that seniors must start taking at age 70 1/2. I normally discuss how much more after-tax income they can receive using this strategy. However, this strategy works very well in combination with life insurance. I call RMD maximization my Million Dollar Sales Idea, since I have personally seen agents make over $1 million by becoming experts in this strategy. Let me discuss how the strategy works and then supercharge the idea using life insurance.

I start by showing a slide of a husband and wife, both 70 1/2, who have a total of $250,000 in IRA money. They need to start taking their required minimum distributions. [Slides] So, as you can see on the slide, the RMDs each year are put on this graph (assuming 4 percent annual growth). You can see that the RMD starts at about $12,500 and climbs each year, topping out at about $17,000 when the clients are in their 90s. Notice also that if they live too long, the RMDs start dropping rapidly until the client is nearly out of money by age 110 or so. Now, just looking at this line, you can see it is what I call "suboptimal." I always knew it was suboptimal, but I never realized why until I spoke at a LIMRA conference. One of the other speakers really caught my attention when he said, "Does everyone realize that RMDs were never created to give clients income in retirement? They were created solely as a tax recapture plan for the Federal Government." Wow, that really hit me. You get a tax deduction when you put money into an IRA or 401(k). You receive tax deferral as well. The only way the government had to get the

taxes on that money was to establish the RMD. Yet, many seniors use it for their retirement income.

Now, here is how I explained why RMDs were suboptimal. I would ask a person, why are you saving money in an IRA or 401(k)? What are you saving it for? She or he would, obviously, say for retirement. "Okay, then when you are 70 1/2, you are now in retirement. If you are 70 1/2, when do you think your best ten years in retirement will be?" They always say, "My next ten years (from age 70 to 80)." Then I direct them back to the RMD graph. Look at this. During your best ten years, the government has you taking out the least. Then when you are in your 90s, you take out the most. And, if you live too long, this starts heading rapidly toward zero. Now, does that look like an optimal retirement plan? Of course not." Then I show them the next graph. [Slide] This one shows the same RMD line but now also shows a joint lifetime income annuity with cash refund. What does that mean? That means the husband gets a check for the rest of his life; when he dies, the wife gets a check for the rest of her life; and if they both die, the kids are protected by the cash refund feature. Now some people say, "Wait a minute, Tom, you can't do joint life on an individual retirement account (IRA)." Oh yes you can! You can do joint life with your spouse, joint life with your kids, you could even do joint life with your golfing buddy.

Now this guy picked his wife. How many years in a row, under the current assumptions, does the lifetime income annuity pay more than the RMD? Answer: Every single year. And look at how much more money you get in your best ten years of retirement. Now, what I have experienced is that about 60 out of 100 70 year olds will love this plan. They will hug you, kiss you, and say you are the answer to their prayers. They had no idea there was a way they could get more money for the husband and the wife, while still protecting the kids. But the other 40 out of 100 won't like you—at least not yet. They will say something like this. "Well, Tom, I'm a little different. I don't even like getting that RMD money because I have to pay taxes, and I hate to pay taxes. Now, all you are doing is sending me more money. That just means I have to pay more in taxes and I just told you how much I hate to pay taxes!" Now that is a client who doesn't get it (yet). So I say to this client, "Now wait a minute. When you take your RMD, where do you pay your taxes from? From your RMD, and you wind up with an amount less than your RMD. But you don't have to do that anymore because now you have met me. Before you met me, all

you got was that blue line (the RMD), but now that you have met me you get all of this (the higher green line of the lifetime income annuity). [Slide] All of the money above the blue line is the *this* that I just brought to the table. We will just use some of *this* (the money above the blue line) to pay the taxes, and you will wind up with about double the money after taxes that you would have with just the RMD." It is not the taxes that really matters. It is where can you get the most amount of money after taxes that really counts. I am telling you, if you get really good at this idea, it is worth more than a million dollars.

So, how does this idea tie into life insurance? Here's how. Many people will say, "Tom, that is all fine and good, but I still don't need any of that money." When they say that, then just ask, "Okay, well then what do you want this money to do when you die?" They will normally say it will then go to the kids. Remind them that this is the worst money to leave to the kids. Income taxes, estate taxes, and income in respect of a decedent can wipe out 50 percent or more. Far better would be for this money to pay for life insurance premiums to pay for a policy that could go income and estate tax free to the family. Don't forget this potential supercharger to the RMD maximization idea.

One last word on RMDs. There is another technique called RMD compression. Some people just don't want their RMDs, and they don't necessarily have anyone to give them to. For these people you can put an inflation rider on the lifetime income annuity. Put the highest amount that the illustration will allow. This can actually "compress" the RMDs for maybe eight years or so. Now the flip side of this is that over time, the lifetime income annuity payments will increase and, depending on how long the client lives, will pay significantly more money over time. But, some clients find this attractive. My point is that you have many options when it comes to required minimum distributions.

Let's move on to some other ways to use life insurance in retirement.

Life Insurance as a Legacy for Grandchildren

Consider Annie. Annie is 62 years old and has four children, all grown and married, and six grandkids. While her estate is set to be divided equally among her children, she wants to leave

each grandchild a nice sum of money. Annie has a $100,000 CD that she doesn't need for retirement income.

Annie plans to use the $100,000 CD to fund legacy gifts for her grandchildren. The $100,000 grows at a hypothetical 2 percent annually, and Annie will pay taxes on this gain each year. Upon her death, the balance would be divided equally among her grandchildren.

With a CD, if Annie died at age 62, each grandchild would receive $16,950 ($101,700 ÷ 6). After speaking with her insurance agent, Annie discovered a better option that would allow her to A) instantly double what her grandchildren would receive today, and B) establish a greater legacy well into the future.

The better option is that rather than paying taxes each year on the CD gains, and if Annie didn't need access to these funds now, Annie could establish her legacy now and ensure larger, tax-free gifts. With a permanent life insurance policy, Annie can immediately turn the $100,000 asset into $220,000 in guaranteed death benefits that would be passed, generally income-tax free, to her beneficiaries, her grandchildren.

With permanent life insurance, Annie more than doubles her legacy gift to each grandchild in the first year, and can expect significantly higher bequests to her grandchildren through her life expectancy. Annie can choose to purchase six individual policies with each grandchild designated as the sole beneficiary or purchase a single policy with six equal beneficiaries.

Best of all, when a new grandchild is born, Annie has the option to either purchase an additional policy or simply add the child as a beneficiary to the existing policy, effectively dividing the face value of the policy seven ways.

Life Insurance for Charitable Giving

Al and Helen, ages 64 and 61, have more than enough money to live a comfortable retirement, and would each like to give $50,000 to a favorite charity at the time of their deaths. However,

they only feel comfortable giving away $50,000 in total, and so are having a tough time deciding which charity should receive their contribution.

They discuss splitting the money between two charities, but realize that a single, large contribution will be more impactful. How can Al and Helen meet their charitable objectives while fulfilling their individual priorities?

Al is interested in making a contribution to a foundation that funds cancer research, as he recently lost his sister to the disease. Helen, a board member at a community service organization, wants to provide seed money for programming. After meeting with their insurance agent, Al and Helen discover that a permanent life insurance policy may provide the answer to their dilemma. The couple splits their $50,000 savings and purchases two individual policies, each with a life insurance benefit of $50,000.

Al and Helen maintain control over both policies throughout their lives, thus preserving their flexibility to change beneficiaries, or, if they have a need, to cancel their policies with the access to their surrender values. Best of all, Al and Helen were able to double their capacity to make a charitable gift and make legacy gifts to both of their favorite charities. With permanent life insurance, Al and Helen can plan for $50,000 gifts to both charities.

Using Life Insurance to Cover Final Expenses

Now both at age 70, John and Leslie have been enjoying their retirement. They have a sound financial plan, which includes a modest inheritance for their children, but they remain concerned about leaving a financial burden upon their death. They know that the $10,000 they have each set aside to cover their final expenses may be insufficient for this purpose.

John and Leslie would like to find a way to cover their final expenses instead of having their children use their inheritance to cover those costs. Unsure of what to do, they look to their life insurance agent for guidance.

John and Leslie's agent suggests they each purchase a permanent life insurance policy. When either Leslie or John passes away, this policy will provide a leveraged death benefit that can be used to help cover their final expenses, thereby keeping their children's inheritance intact.

Best of all, Leslie and John will maintain control over both policies throughout their lives. They preserve the flexibility to change beneficiaries or exercise the policies' surrender value should their needs change. John and Leslie split their $20,000 savings and purchase two individual life insurance policies with a total insurance benefit of $32,600

Using Life Insurance to Protect Social Security Benefits

In retirement, a married couple often counts on two social security checks. Here is an example of social security monthly income based on 2011 benefit:

Husband: $2,100
Wife: $1,100
Total monthly income from social security: $3,200

What happens if the husband dies?

Generally, a surviving spouse (beginning age 62) is entitled to collect the greater of their own benefit, or a widow's or widower's benefit equal to 100 percent of their spouse's benefit, providing they were married ten years.

Husband: $0
Wife: $2,100
Total monthly income from social security: $2,100

Conventional wisdom says that a young family needs life insurance or a working spouse to help replace the lost income if the spouse unexpectedly dies.

What about life insurance to replace retirement income that will cease at the death of a spouse, such as social security?

- Permanent cash value life insurance can provide cash at death (generally income tax free) to provide income for the surviving spouse.

- People age 60+ are the fastest growing segment buying new life insurance policies. This is why you should consider permanent life insurance earlier.
- Many people buy permanent life insurance while they are still working, knowing that the death benefit can be used when they retire to help replace the lost income, whether that be from social security or any other source.

Your agent can help you protect those you care about by obtaining life insurance

- That fits your budget
- Is the right amount
- Is the most suitable kind of insurance coverage

In 2008 when the market was cratering, I was asked by the American College to write an article on this exact subject. I say there are three very simple discussions you can have during times like these.

I first say that life insurance is a women's issue. What do I mean by that? I recently spoke to the National Association of Homebuilders. I had nothing to do with the meeting. They needed a speaker to talk about retirement issues. Since the meeting was in Phoenix, the home office gave me the mission. Since I had no idea what I would be speaking about, I got there early to review my slides. Now, I cannot even make this up. This is the first slide in that deck: What Women Want by Tom Hegna. Now that is funny on about 15 different levels but I'm not even going to go there. But I will say that there were some great slides.

Seventy percent of baby boomer women will become widows. Seventy percent will be the beneficiary of a life insurance contract. And because they live longer and typically marry men older than themselves, they may be widows for 10, 20, even 30 years. With the recent drop in markets and housing, many of the baby boomer men are way underinsured. Who will pay the consequences? Women! We need to discuss this with women. Don't take my word for it. Go find a widow who is living well and a widow who isn't. Ask them. The difference is life insurance.

Life Insurance Is a Tax Issue As Well

We all know the importance of asset allocation and diversification of investments. When we think of diversification, we normally think of spreading our money among stocks, bonds, commodities, and cash. Don't put all of your eggs in one basket. By diversifying your assets, you typically smooth out the ups and downs since, historically, not all asset classes move up or down together. (More recently we have times when all of these assets have gone up or down together, so the search for assets that are noncorrelated continues to be a very important part of diversification.) But what about tax diversification? This is a very important concept to understand. If you think about it, most people have the majority of their assets in qualified or pretax accounts such as 401(k) plans, TSAs, and IRAs. These vehicles offer tremendous tax advantages in the accumulation phase. The contributions are tax deductible and offer tax-deferred growth. However, in the distribution phase they can be a tax nightmare since all distributions are fully taxable. With all of the economic problems facing this country, where do you think tax rates are going? I can tell you the math is very clear—taxes will be going up. I have no doubt about that. If you agree with that proposition, my question is this, how much sense does it make to have all or most of your money in fully taxable accounts? Would it have been better to have some of that money invested where withdrawals would be tax free?

If you could invest in the "tax perfect" retirement plan, what would it look like? It would probably include:

1. Contributions that are tax deductible
2. Accumulation that is tax deferred
3. Distributions that are tax free

Unfortunately, such a plan does not exist. But you may be able to get either 1 and 2 or 2 and 3.

Many people increasingly like the idea of paying taxes now on savings for retirement knowing they will not have to pay taxes on the growth or the distribution of that savings. The most common financial vehicles that do that are a Roth IRA, tax-free municipal bonds, and cash value life insurance. I like to say it this way, if you were a farmer, would you rather pay tax on the seed or the harvest? I think almost every farmer would rather pay tax on the seed. It works the same way with money. As I stated earlier, I am a big supporter of Roth IRAs, but Roth IRAs do not allow unlimited contributions. Tax-free bonds can work, but you need to be very careful since

states and municipalities are having significant financial issues. Additionally, as interest rates rise, the value of the bonds will go down. Permanent life insurance that builds cash value can be a great tool in this situation. The premiums are paid with after-tax dollars. The policy grows tax deferred, and you can access those cash values before or after retirement on a tax-free basis as long as it is structured properly. Upon death, the death benefit is paid to your beneficiaries tax free.

Just take a look at this example of taking $100,000 in income, all from a pension plan, such as a 401(k) or an IRA. Under today's tax brackets, if there were no additional income, that would put this person in a 25 percent tax bracket resulting in a $25,000 tax (assuming no deductions for the sake of simplicity), leaving $75,000 to spend after taxes.

However, if, for instance, we took $50,000 from a totally taxable qualified pension plan and $50,000 from a tax-free bucket of money, there would be no tax on part and a lowered bracket and tax on the half we do have to pay taxes on, leaving over $92,500 to spend. It's clear that in this example, by employing a tax diversification strategy and moving a portion of your money into a cash value life insurance, you can potentially lower your taxes while giving you more to spend—to increase your standard of living.

Life Insurance Is a Wealth Transfer Issue

I am going to spend a little time on the wealth transfer portion of my presentation. This would be better known as estate planning. Let's look at a way that we can turn a $20 million taxable estate into a $35 million tax-free estate. Is that even possible? It sure is, and I'm going to show you how simple it really is. Let me introduce you to Lee and Mary. They currently have a $20 million estate. As you know, with the current $5 million personal exemption, they can transfer a $10 million estate tax free to their children. The real question is what should they do with the other $10 million. What if they put the $10 million into a joint lifetime income annuity? They could use the income from this annuity to buy a $25 million survivorship life policy inside of an irrevocable life insurance trust. Now look at how this works. When Lee and Mary both die, the lifetime income annuity completely disappears from their estate. The $25 million life insurance policy now springs up in the irrevocable life insurance trust—completely income and estate tax

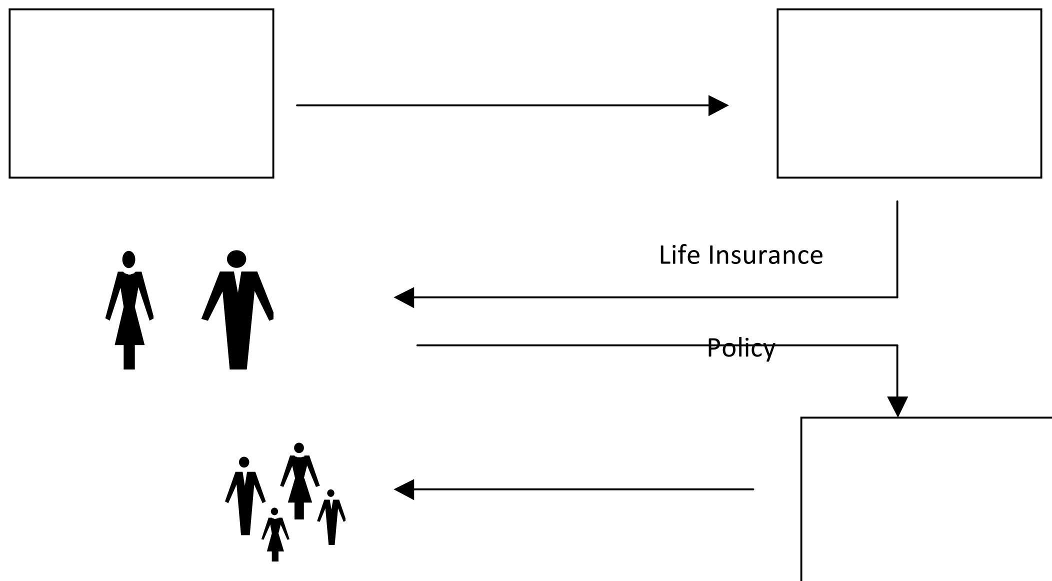
free. So now the family gets the $10 million exemption tax free as well as the $25 million survivorship policy income and estate tax free as well. You just turned a $20 million taxable estate into a $35 million tax-free estate. Let’s jump back for a minute. Remember, at this point you will need to get some estate planning assistance. An ILIT will need to be established. There is gifting required complete with Crummey letters. My point is this, you don’t have to be an expert at all of that. The estate planning attorney can be the expert in that. You need to know that you can help someone with a taxable estate turn it into a tax-free estate with just a few simple moves.

Last year in Anaheim, John Homer gave an entire workshop on using lifetime income annuities to provide premium dollars for life insurance and, at the same time, removing significant assets from the estate. His motto was really “the bigger the better.” I would encourage you to get a copy of his talk and read through all of his ideas.

He called them Cinderella Slipper strategies that do not necessarily fit most situations. However, he was looking for the situations where the slipper will fit perfectly. The profile of the client that fits is as follows:

- Generally between ages 70 and 90
- Has liquid assets, or can convert to liquid assets
- Needs an economic engine to generate good cash flow
- Wants to remove assets from the taxable estate
- Has a trust that needs cash flow
- Has tax-deferred annuities

When presenting the concept to the potential client, he generally diagrams it on a white board, a napkin, or yellow pad. The diagram looks like this:



Using variations of this same concept, he showed the guaranteed income program, the liquid asset protection plan, reinsured charitable gift annuities, getting to capital gain assets without selling, dealing with adverse health history, bailing out deferred annuities, getting premiums out of the estate, qualified guaranteed income plans, additional charitable giving ideas, and even dealing with clients who are too young for these strategies. He has had tremendous success writing very large annuity and life insurance policies with these simple techniques. He lays out the details in his presentation, and I strongly recommend you get a copy.

Let me close with a true story. It is the story of the Cash Cows. I have worked with a lot of wealthy people over the years. Whenever we get to the estate planning portion of the discussion, clients always have a tough time understanding why they should buy a big life insurance policy. I remember one case in particular of a very successful rancher in Sterling, Colorado. He was worth around $15 million. We were recommending a $7 million life insurance policy to pay the estate taxes. I clearly remember him sitting there with his arms crossed. He said, “I just don’t need or want any life insurance. Heck, I’m loaded. I’m worth $15 million, I don’t need any life insurance. In fact, I’d have to say life insurance is the last thing I need. I think you boys are just trying to make a big commission.”

This is a very common objection from wealthy people, and I didn't even flinch. In fact, I smiled because I knew it was coming. I just leaned forward, looked Ed in the eyes and said, "I have to get on your side of the table on this one. Let me be the first to agree with you. You are worth a lot of money and you are correct, you don't need any life insurance in the traditional sense. Your family will be fine financially whether you live or die. However, what you need is a way to transfer your wealth to your children and grandchildren in the most tax-efficient manner possible. If we could transfer your wealth with stocks or bonds or real estate, we would. But it just so happens that life insurance is the best wealth transfer vehicle. So, again, I completely agree that you don't need life insurance in the traditional sense, but you do need a wealth transfer vehicle that just happens to be life insurance." Now that normally works with the wealthy person, but not today. He crossed his arms again and said, "Boys, there will be no life insurance purchased here today. I might have been born at night but not last night."

The agent, and I'm not making this up, reached into his bag and took out four plastic cows from a kid's farming set. He set the four plastic cows on the table. Bob said, "These are your four cash cows. This one represents all of your land. This one represents all of your buildings. This one represents all of your equipment, and this one represents all of your investments and bank accounts. Now, what Tom was trying to say is that when you die, the IRS is going to come to the farm and butcher two of these cows. [At the time, the estate tax was about 50 percent after very low exemptions.] They will butcher those two cows and keep all of the meat. All Tom was recommending is that instead of butchering those two cows, we take a little milk from each of the four cows. The milk is used to buy a policy. When you die, the policy goes to the IRS and your family gets to keep your four cash cows. Now, one of those things is going to happen—you get to pick which one." It was like a light bulb went on in his head. He said, "Heck, every rancher knows it is better to give up a little milk than to butcher two good cows." You see, I couldn't explain estate planning to him, and the attorney couldn't either. He understood estate planning through the eyes of a six-year-old with those toy cows. I learned a lot that day about storytelling and the power of simplicity.

Look, I can't tell you if the stock market is going up or going down or if we are going to have inflation or deflation. But I do know if your clients own a whole life policy, none of that really

matters. If they have a lifetime income annuity that covers their basic expenses and have the rest of their portfolio optimized for inflation, none of that really matters. I would submit that *we* have the answers for markets like these.